

U. S. Securities and Exchange Commission

Washington, DC 20549

FORM 10-QSB

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 01-14453

National Real Estate Limited Partnership Income Properties

(Exact name of small business issuer as specified in its charter)

Wisconsin

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

39-1503893

1155 Quail Court, Pewaukee, Wisconsin  
(Address of principal executive offices)

53702-3703

(262) 695-1400

(Issuer's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

# NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES

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**PART I. FINANCIAL INFORMATION**

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**BALANCE SHEET**  
**(Unaudited)**

	<u>March 31,</u> <u>2001</u>	<u>December 31, 2000</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$236,430	\$245,403
Escrow deposits and other assets	60,396	91,248
Investment properties, at cost		
Land	568,848	568,848
Buildings and improvements	<u>4,324,905</u>	<u>4,324,905</u>
	4,893,753	4,893,753
Less accumulated depreciation	<u>2,173,695</u>	<u>2,137,780</u>
	<u>2,720,058</u>	<u>2,755,973</u>
	<u>\$3,016,884</u>	<u>\$3,092,624</u>
 <b>LIABILITIES AND PARTNERS= CAPITAL</b>		
<i>Liabilities:</i>		
Accrued expenses and other liabilities	\$61,526	\$101,996
Tenant security deposits	5,346	4,823
Deferred rent	38,356	31,963
Accrued interest payable to individual General Partner	85,124	75,650
Note payable to individual General Partner (Note 5)	<u>271,020</u>	<u>271,020</u>
	461,372	485,452
 <i>Partners= Capital (Deficit):</i>		
General Partners	(163,468)	(161,919)
Limited Partners	2,740,651	2,790,762
(authorized C 10,000 Interests; issued C 9,034.01 Interests)		
Less cost of 29.86 Limited Partner Interests held in Treasury	<u>(21,671)</u>	<u>(21,671)</u>
	<u>2,555,512</u>	<u>2,607,172</u>
	<u>\$3,016,884</u>	<u>\$3,092,624</u>
 <i>See notes to financial statements.</i>		

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Statement of Operations**  
**(Unaudited)**

Three Months Ended  
March 31,

	<u>2001</u>	<u>2000</u>
<b>INCOME</b>		
Operating income	<u>\$200,932</u>	<u>\$205,203</u>
Total income	200,932	205,203
 <b>OPERATING EXPENSES</b>		
Operating expenses	77,714	76,013
Administrative expense	40,852	52,341
Depreciation	35,915	36,458
Interest expense	<u>9,474</u>	<u>8,410</u>
Total expenses	<u>163,955</u>	<u>173,222</u>
 <b>Income from Operations</b>	 <u>36,977</u>	 <u>31,981</u>
<b>Other Income:</b>		
Interest income	<u>4,189</u>	<u>10,443</u>
 <b><i>Net Income</i></b>	 <u><b>\$41,166</b></u>	 <u><b>\$42,424</b></u>
 Net Income attributable to General Partners (3%)	 \$1,235	 \$1,272
Net Income attributable to Limited Partners (97%)	 \$39,931	 \$41,152
Per Limited Partnership Interests outstanding 89,004.15	 <u>\$4.43</u>	 <u>\$4.57</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Statement of Changes in Partners' Capital (Deficit)**  
**(Unaudited)**  
**Three Months Ended March 31**

	<u>Limited Partners</u>	<u>General Partners</u>	<u>Interests Held in Treasury</u>	<u>Total</u>
<u>March 31, 2001</u>				
Partners= Capital (Deficit), beginning of period	\$2,790,762	(\$161,919)	(\$21,671)	\$2,607,172
Distributions	(90,042)	(2,784)		(92,826)
Net Income for the period	<u>39,931</u>	<u>1,235</u>		<u>41,166</u>
Partners= Capital (Deficit), end of period	<u>\$2,740,651</u>	<u>(\$163,468)</u>	<u>(\$21,671)</u>	<u>\$2,555,512</u>
 <u>March 31, 2000</u>				
Partners= Capital (Deficit), beginning of period	\$3,472,815	(\$140,824)	(\$21,671)	\$3,310,320
Distributions	(441,203)	(13,647)		(454,850)
Net Income for the period	<u>41,152</u>	<u>1,272</u>		<u>42,424</u>
Partners= Capital (Deficit), end of period	<u>\$3,072,764</u>	<u>(\$153,199)</u>	<u>(\$21,671)</u>	<u>\$2,897,894</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP**  
**INCOME PROPERTIES**  
***(A Wisconsin Limited Partnership)***  
**Statement of Cash Flows**  
***(Unaudited)***  
***Three Months Ended March 31***

	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>Operating Activities</b>		
Net income for the period	\$41,166	\$42,424
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	35,915	36,458
<i>Changes in operating assets and liabilities:</i>		
Escrow deposits and other assets	30,852	206
Deferred rent	6,393	2,986
Accrued expenses, other liabilities, and accrued interest	(30,996)	24,071
Tenant security deposits	<u>523</u>	<u>0</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	83,853	106,145
<b>Investing Activity:</b>	0	0
<b>Financing Activities:</b>		
Distributions to partners	<u>(92,826)</u>	<u>(454,850)</u>
<b>DECREASE IN CASH</b>	<u>(8,973)</u>	<u>(348,705)</u>
Cash and cash equivalents at beginning of period	<u>245,403</u>	<u>806,382</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$236,430</u>	<u>\$457,677</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Notes to Financial Statements**  
**(Unaudited)**  
**March 31, 2001**

1. In the opinion of the General Partners, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) which are necessary for a fair presentation. These statements, which do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements, should be read in conjunction with the National Real Estate Limited Partnership Income Properties annual report for the year ended December 31, 2000 (refer to the footnotes of those statements for additional details of the Partnership's financial condition). The operating results for the period ended March 31, 2001 may not be indicative of the operating results for the entire year.
2. National Real Estate Limited Partnership Income Properties (the APartnership®) was organized under the Wisconsin Uniform Limited Partnership Act pursuant to a Certificate of Limited Partnership dated December 18, 1984, for the purpose of investing in residential, commercial, and industrial real properties. John Vishnevsky and National Development and Investment, Inc., contributed the sum of \$6,000 to the Partnership as General Partners. The Limited Partnership Agreement authorized the issuance of 10,000 Limited Partnership Interests (the AInterests®) at \$1,000 per Interest with the offering period commencing January 31, 1985. Upon conclusion of the offering in December 1986, the Partnership had raised \$9,024,556 in capital representing 9,034.01 Interests.
3. **National Realty Management, Inc. (NRMI)**: The Partnership incurred property management fees of \$11,899 under an agreement with NRMI for the three month period ended March 31, 2001. The Partnership also incurred \$5,200 in the first three months of 2001 for the reimbursement of accounting and administrative expenses incurred by NRMI on behalf of the Partnership.  
  
The Partnership subleases a portion of common area office space from NRMI under terms of a lease, which expires on August 31, 2002. During the first three months of 2001, the Partnership incurred lease fees totaling \$2,769, which represents the Partnership's prorated portion, based upon space occupied, of NRMI's monthly rental obligation.
4. **National Development and Investment, Inc. (NDII)**: The Partnership incurred \$41,071 for the reimbursement of administrative expenses incurred by NRMI on behalf of the Partnership for the first three months of 2001.
5. As outlined in the prospectus, the General Partners agreed to make loans to the Partnership up to an aggregate of 3% of the gross proceeds of the offering to the extent necessary to provide distributions to the limited partners at annualized rates equal to 8% in 1985, 8.25% in 1986, and 8.5% in 1987. The loan will be repaid solely from sales proceeds, with compounding interest equal to the cost of funds or 12%, whichever is lower. As of March 31, 2001, interest totaling \$85,124 has accrued.

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Management's Discussion and Analysis of**  
**Financial Condition and Results of Operations**  
**March 31, 2001**

The Partnership currently owns and operates three investment properties; Tucson Lock-It Lockers, a 49,865 net rentable square foot mini warehouse complex in Tucson, Arizona; Phoenix Lock-It Lockers, a 62,016 net rentable square foot mini warehouse complex in Phoenix, Arizona; and a portion of Cave Creek Lock-It Lockers containing 7,604 of 46,283 net rentable square feet in Phoenix, Arizona.

National Real Estate Limited Partnership Income Properties II (ANRELP-IP-II©) owns the remaining portion of Cave Creek Lock-It Lockers. NRELP-IP II is a Wisconsin limited partnership, affiliated with the General Partners.

Occupancy based upon net rentable square feet for the first three months of 2001 averaged 92.11% for Tucson Lock-It Lockers; 91.10% for Phoenix Lock-It Lockers; and 90.88% for Cave Creek Lock-It Lockers. This compares to an average of 92.79% for Tucson Lock-It Lockers; 91.47% for Phoenix Lock-It Lockers; and 90.10% for Cave Creek Lock-It Lockers during the same period of 2000.

**Three Months Ended March 31, 2001 and 2000**

Net income decreased \$1,258 from \$42,424 for the period ended March 31, 2000, to \$41,166 for the period ended March 31, 2001. This decrease was due to, in part, the net effect of a decrease in total income of \$4,271, a decrease in administration expenses of \$11,489, and a decrease in interest income of \$6,254.

Total income decreased \$4,271, primarily due to increased delinquent tenant write-offs in 2001. Administrative expenses decreased \$11,489, largely due to reduced personnel costs. Interest income decreased \$6,254 due to a large cash distribution paid in the first quarter of 2000, which decreased the interest bearing account.

The decrease in cash during the first three months of 2001 totaled \$8,973, as compared to the decrease in cash during the first three months of 2000 of \$348,705. This difference was due to, in part, a decrease of \$362,024 in cash distributions in 2001 as compared to 2000, netted with a \$22,292 decrease in cash provided by operating activities in 2001.

The large cash distribution in the first quarter of 2000 was made for the purpose of complying with the stipulation of settlement agreement.

Cash provided by operating activities decreased \$22,292 for the period ended March 31, 2001, as compared to the same period in 2000, primarily due to a \$55,067 decrease in cash provided by accrued expenses, other liabilities and accrued interest, netted with a \$30,646 increase in cash provided by escrow deposits and other assets. The \$55,067 decrease is due to, in part, \$45,123 in accrued accounts payable existing at December 31, 2000, paid by March 31, 2001. The \$30,646 increase is due to, in part, a \$37,931 reduction in the salary escrow account from December 31, 2000 to March 31, 2001, due to severance salaries paid in February of 2001 and funds subsequently released from escrow.

**PART II. OTHER INFORMATION AND SIGNATURES**

**Item 1. Legal Proceedings**

On May 25, 1999, the general partners, the property management company (NRMI), and other entities and individuals were named as defendants in a lawsuit (the "Vishnevsky Defendants"). The Partnership (along with another partnership, collectively the "Partnerships") was not included in the original lawsuit but was later added to the action as a nominal defendant. The plaintiffs sought to have this action certified as a class action lawsuit. In the complaint, the plaintiffs alleged wrongdoing against the Vishnevsky Defendants in connection with two basic areas. First, allegations involving various vote solicitations alleged by the plaintiffs to be an effort to perpetuate the Partnerships and avoid liquidation. Second, allegations involving the taking and use of Partnership funds and property, including excessive fees and unauthorized expenses. On March 14, 2000, the parties to the litigation with the exception of the defendant Wolf & Company entered into a Stipulation of Settlement.

Based upon the Stipulation, on April 27, 2000, the Circuit Court of Waukesha County held a



hearing which certified the case as a class action and approved terms of a settlement. The more significant terms of the Stipulation of Settlement are as follows:

An independent marketing agent (the “Partnerships’ Representative”) was appointed to market and sell the Partnership investment property (the “Property”). However, no offer to purchase the Property will be accepted without first obtaining approval from a majority interest of the limited partners. Final distributions of the net proceeds received from a sale of the Property will be made in accordance with the terms of the Partnership’s limited partnership agreement and prospectus, and upon providing 20-day notice to the plaintiff’s attorney. Net proceeds will first be applied to pay plaintiffs’ counsel’s legal fees, expenses and costs, with interest thereon. The Partnerships’ Representative has prepared and distributed an Offering Memorandum for marketing the Property.

Interim distributions to limited partners will continue to be made in accordance with the limited partnership agreement. However, upon final approval of the Settlement, distributions were increased to the extent that sufficient reserves were established to support normal partnership operations and the wind-up of Partnership affairs upon the sale of the Property. Any such additional distributions were made within 30 days of the final approval of the Settlement.

NRMI and the general partners shall continue to provide management and consulting services to the Partnership on the same terms and conditions currently provided under existing contracts until the Property is sold and assets liquidated and the Partnership entity dissolved. NRMI will also be the listing broker for the sale of the Property.

The plaintiffs’ claims made against NRMI, the general partners, and other related parties for excessive charging of expenses to the Partnerships, including the Partnership, will be settled through binding arbitration. Any such expenses disallowed through arbitration shall be reimbursed to the Partnerships.

At the April 27, 2000 hearing, the lawsuit was certified as a non-opt out class action, in which all limited partners of the Partnership other than the Vishnevsky Defendants are required to be included in the settlement of this litigation. Furthermore, the Court ruled that plaintiffs’ counsel’s attorneys fees would be equal to one-third of the difference between the secondary market value of the Partnership interests and the total funds available for distribution to the limited partners after payment of all Partnership obligations. The Court allowed the Vishnevsky Defendants sixty days thereafter to present their evidence regarding secondary market value.

On June 20, 2000, the Court entered a judgment based upon its April 27th decision. Thereafter, on July 21, 2000, the Court held a hearing on the plaintiffs’ Motion for Enforcement of the Court Approved Settlement and in Support of Sanctions. The outcome of the hearing was that the Court granted sanctions totaling \$437,000.00 against the Vishnevsky Defendants and their counsel for delaying the appointment of the Partnerships’ Representative and the arbitrators. The Court took under advisement the remaining open issue regarding the secondary market value for computing the plaintiffs’ counsel’s attorneys fees until the arbitration proceedings are completed and the Partnerships’ properties are sold. A Motion for Reconsideration of the sanctions was filed with the

Court and was denied on September 25, 2000. The Vishnevsky Defendants filed a motion with the Court to stay payment of the sanctions pending appeal. That motion was also denied.

On August 2, 2000, the Vishnevsky Defendants filed an appeal from that portion of the judgment determining the method for computing the plaintiffs' counsel's attorneys fees. On October 10, 2000 the Vishnevsky Defendants and their counsel filed a second appeal from the order granting the sanctions. A motion to consolidate the two appeals has been granted. No decision has been made in either appeal. The arbitration panel has been selected and discovery is proceeding. No date has been set for the arbitration hearing. Based on the events to date, it is not possible to determine the final outcome of the litigation, or the amount of any potential monetary impact to the Partnership. Therefore, no provision for any such financial impact arising from the lawsuit has been made in these financial statements.

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

None

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National Real Estate Limited Partnership  
Income Properties  
\_\_\_\_\_  
(Registrant)

Date May 11, 2001

/S/John Vishnevsky

\_\_\_\_\_  
John Vishnevsky  
President and Chief Operating and  
Executive Officer  
National Development and Investment, Inc.  
Corporate General Partner

Date May 11, 2001

/S/John Vishnevsky

\_\_\_\_\_  
John Vishnevsky  
Chief Financial and Accounting Officer

Date May 11, 2001

/S/Stephen P. Kotecki

\_\_\_\_\_  
Stephen P. Kotecki  
President  
EC Corp  
Corporate General Partner

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National Real Estate Limited Partnership  
Income Properties  
\_\_\_\_\_  
(Registrant)

Date May 11, 2001

— John Vishnevsky  
President and Chief Operating and  
Executive Officer  
National Development and Investment, Inc.  
Corporate General Partner

Date May 11, 2001

— John Vishnevsky  
Chief Financial and Accounting Officer

Date May 11, 2001

— Stephen P. Kotecki  
President  
EC Corp  
Corporate General Partner